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June 11, 2024

Italy's non-life insurers successfully navigated the challenges of 2023, and AM Best expects 2024 to be a year of solid and healthy growth for the segment.

Market Segment Outlook: Italy Non-Life Insurance

AM Best has revised its outlook on Italy's non-life insurance segment from Negative to Stable. The following factors were considered:

- Growth momentum supported by tariff adjustments and stabilisation of the economic environment.
- Segment-wide underwriting profitability sustained by improving motor business.
- Elements of the 2024 Budget Law pose a challenge for property business.

Growth Momentum Supported by Tariff Adjustments and Stabilisation of the Economic Environment

AM Best expects non-life insurance gross written premium (GWP) to continue to grow at a steady pace during 2024, supported by tariff increases and a stabilisation of the Italian economy. According to the International Monetary Fund (IMF), Italy's inflation rate will stabilise while real gross domestic product (GDP) is projected to grow by 0.7%.

In 2023, non-life GWP grew 7.7%, according to Associazione Nazionale fra le Imprese Assicuratrici (ANIA), the fourth consecutive year of growth. Motor GWP, which accounts for just over a third of the segment's premiums, returned to growth in 2023 after years of contraction driven by high levels of competition. ANIA also reported that the average premium rate for motor third-party liability (MTPL) increased by 7.9% in response to inflationary pressures on the cost of claims.

Premiums from non-motor lines continued to grow across almost all lines of business, increasing by 7.4%. In particular, the health segment grew by 11% and general liability by 7%. AM Best expects non-motor lines of business to continue their consistent expansion throughout 2024.

The stabilising economic environment may lead to interest rate cuts and reduced yields, which in turn may generate unrealised gains in investment portfolios. However, the segment's concentration in favour of lower-rated bonds continues to expose it to the risk of downgrades that would significantly increase the required capital and put pressure on insurers' capitalisation.

Segment-Wide Underwriting Profitability Sustained by Improving Motor Business

In AM Best's opinion, the segment has successfully navigated inflationary pressures and expects the impact of inflation to reduce in 2024. While competition will remain a headwind for the industry, tariff increases applied during the year will be a source of relief and are expected to continue to offset the impact of inflation on the motor business, reversing the downward trend in profitability.

Performance will also continue to be supported by consistently well-performing non-motor lines of business, as well as improved investment income.

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2024-073

With interest rates predicted to remain at a higher level compared to the past decade, at least in the medium term, returns on insurers' own portfolios are expected to be a solid contributor to overall profitability.

In terms of the segment-wide combined ratio, the first half of 2023 remained largely in line with the previous year until the end of the third quarter when the combined ratio deteriorated to 99%. AM Best notes that this was almost entirely driven by the effect of natural catastrophe events, most notably floods and hailstorms. Net of natural catastrophe losses, 2023 combined ratios would have remained aligned with the prior year. Overall, the impact of inflation on combined ratios remained fairly limited, especially on MTPL coverage, with tariff adjustments effectively balancing out the cost of claims inflation.

However, AM Best believes that there might be a timing mismatch between economy-wide inflation figures and claims inflation, which could affect the performance for specific lines of business during 2024. In May 2023, the Milan Court tables were updated. These tables were last updated in 1922 and are used to calculate, for example, life annuity payouts due to invalidity following an accident. The Milan Court Monitoring Centre revised a number of factors including the inflation factor, assumed to be 3.4%. Considering that these assumptions will remain unchanged until the next update, claims inflation will not match real inflation movements prospectively.

Elements of the 2024 Budget Law Pose a Challenge for Property Business

The 2024 Budget Law (Legge 30 dicembre 2023, n. 213) introduced the duty for corporate entities to buy coverage against earthquakes, floods and landslides. Details on the implementing act, such as expected limits, have not yet been finalised; however, preliminary market estimates suggest that the insured value could potentially double. As the law is already in force, corporate entities will need to comply with this decree by December 31, 2024.

Natural catastrophe risks have historically been mostly ceded to the reinsurance market, materially limiting insurers' net exposures. After the full implementation of the Budget Law, the future performance of these lines will be dependent on reinsurers' appetite for natural catastrophe risks. It is noted that if insurers are unable to find the desired level of protection, they may be exposed to the potential for increased volatility in results.

Italy has the second highest protection gap score for natural catastrophes across Europe, according to EIOPA's "Dashboard on Insurance Protection Gap for Natural Catastrophes". This is due to a combination of both the frequency and severity of perils along with low levels of insurance penetration.

With regard to commercial properties, insurance penetration for natural catastrophe coverage is 7%, according to ANIA estimates. This low level of penetration is exacerbated by the presence of "micro-enterprises" (companies with less than 10 employees), which account for 75% of total enterprises. Within this class of enterprise, mainly due to a lower level of risk awareness, the penetration rate for flood cover is 2% and 6% for earthquakes.

Due to the increase in the severity and frequency of catastrophic events in recent years, most notably the severe hailstorms and floods that occurred between July and November 2023, the low level of insurance penetration for these kind of events has increasingly come to the attention of the Italian parliament. Attempts to improve penetration through a legal framework of incentives has so far proven ineffective, which is the reason for the introduction of the insurance duty in the 2024 Budget Law.

AM Best notes that Italy's non-life insurers successfully navigated the challenges of 2023, mainly driven by the heightened level of inflation and a sluggish economic environment.

AM Best expects 2024 to be a year of solid and healthy growth for the segment. Performance will continue to be supported by consistency in non-motor lines of business, as well as improved investment income.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook

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| Positive | A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive. |
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We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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Published by AM Best

BEST'S MARKET SEGMENT REPORT

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Version 011624